

CONSUMERS ILLINOIS WATER COMPANY

**DIRECT TESTIMONY
OF
TERRY J. RAKOCY
(DOCKET 02-0243)**

WITNESS IDENTIFICATION AND BACKGROUND

Q. Please state your name and business address.

A. Terry J. Rakocy, 1000 S. Schuyler Avenue, Kankakee, Illinois 60901

Q. By whom are you employed?

A. Consumers Illinois Water Company.

Q. What is your position with Consumers Illinois Water Company (“CIWC”)?

A. I am the President.

Q. Please summarize your educational, professional and business background.

A. I graduated from Youngstown State University, Youngstown, Ohio in 1972. I received a Bachelor of Science Degree in Industrial Engineering. In addition, I attended the Ohio State University College of Business, and completed the Executive Development Program in 1990. I hold a Professional Engineer registration from the State of Ohio, and a Class II Operator License in Water Distribution from Ohio EPA. My professional affiliations include the National Association of Water Companies, in which I serve on the Customer Service Committee, and the Illinois-Missouri Chapter of the National Association of Water Companies, in which I am a Director of the organization. Other professional affiliations include the American Water Works Association and the Illinois Section of American Water Works Association. I have twenty-seven years of

progressive management experience in the area of water supply, treatment, and distribution; plus experience in wastewater collection and treatment. The experience has included seven years of operation responsibilities as Chief Engineer of the 63,000 customer City of Youngstown, Ohio municipal water system; Project Manager for a 3.0 MGD water treatment plant expansion; Assistant Division Manager and Division Manager for the 25,000 customer Consumers Ohio Water Company, Massillon Division; President of the 8,000 customer Consumers New Hampshire Water Company; and currently President of Consumers Illinois Water Company.

Q. What are your duties as President of CIWC?

A. I am responsible for the overall leadership, management and operations of Consumers Illinois Water Company, which serves approximately 53,500 water customers and 10,400 wastewater customers in the State of Illinois. I have direct responsibility for planning, organizing and staffing. I, along, with the other officers of the Company, have responsibility for customer satisfaction and public relations including local and state government officials, and news media. I am responsible for the financial performance of the company, including business plan development. In addition, I am responsible for marketing, legislative relations, regulatory relations and parent company relations.

PURPOSE OF TESTIMONY

Q. Mr. Rakocy, what is the purpose of your testimony?

A. The purpose is to discuss the Services Agreement proposed in this proceeding, and explain why the Agreement should be approved. The Services Agreement is marked as CIWC Exhibit A. I will also discuss the operations of Consumers Indiana Water Company (“CINWC”), an affiliate of CIWC which is in the process of formation. I serve as the President of both CIWC and CINWC.

51 **THE COMPANIES INVOLVED**

52 **Q. Please further discuss the companies involved in this proceeding.**

53 A. CIWC is a public utility as defined in Section 3-105 of the Public Utilities Act (“Act”)
54 (220 ILCS 5/3-105), which provides water service to approximately 53,541 customers and
55 wastewater service to approximately 10,519 customers in portions of Will County,
56 Kankakee County, Vermilion County, Boone County, Knox County, Lee County and
57 Lake County. CIWC is staffed with experienced specialists in all phases of
58 water/wastewater public utility business and operations. CINWC is a recently established
59 Indiana water and wastewater utility that will serve an area of approximately six square
60 miles, including, along with other areas, the Prairie Trails Subdivision in Lake County,
61 Indiana. Within three years, Prairie Trails is expected to include 290 customers
62 (residential and commercial). Approximately 10 additional customers are expected during
63 the three-year period in the remainder of CINWC’s certificated area. All of the common
64 stock of CINWC is owned by Consumers Water Company, which also owns all of the
65 common stock of CIWC. All of the common stock of Consumers Water Company is, in
66 turn, owned by Philadelphia Suburban Corporation. Thus, CIWC and CINWC are
67 affiliated interests as defined in Section 7-101 of the Act, 220 ILCS 5/7-101.

68 **Q. What transactions involving CIWC and CINWC are contemplated?**

69 A. CINWC will purchase water from CIWC’s Willowbrook Division and deliver wastewater
70 from its collection system to the Willowbrook Division for treatment. Such purchase of
71 water and delivery of wastewater will occur at delivery points located within the
72 certificated service area of the Willowbrook Division. The sale of water and wastewater
73 treatment service provided by CIWC to CINWC will be in accordance with the

74 Willowbrook Division's effective tariffs and Rules, Regulations and Conditions of Service
75 ("Rules and Regulations") (or as such tariffs and/or Rules and Regulations may from time
76 to time be amended). To connect the Willowbrook system to the delivery points, water
77 and sewer main extensions will be installed in accordance with CIWC's Standard Form
78 Main Extension Agreements. Finally, as will be discussed, it is contemplated that CIWC
79 will provide certain services to CINWC pursuant to the Services Agreement.

80 **Q. Please discuss the need for approval of the transactions involving CIWC and**
81 **CINWC.**

82 A. CIWC and CINWC are affiliated interests, as defined in Section 7-101. Under the
83 language of that Section, certain transactions involving these entities are exempt from any
84 approval requirement. CIWC will provide water and collect wastewater within its
85 certificated service area under the presently effective water/sewer tariffs and rules,
86 regulations and conditions of service ("Rules and Regulations") (or as such tariffs and
87 Rules and Regulations may from time to time be amended). Thus, water and sewer will
88 be provided, "at prices or rates fixed pursuant to law." The provision of water and sewer
89 service is, therefore, exempt from the affiliated interest approval requirement of
90 Section 7-101, (See 83 Ill. Admin. Code 310.60(b)). The water/sewer main extensions
91 are subject to the Standard Form Main Extension Agreement, as prescribed in the Rules
92 and Regulations. These agreements, therefore, also do not require separate approval. As
93 will be discussed, the Services Agreement is an affiliated interest agreement that does
94 require Commission approval under Section 7-101.

95 **Q. Does CIWC require a Certificate of Convenience and Necessity to construct the**
96 **water/sewer main extensions?**

97 A. No. Water/sewer utilities are not required to obtain certificates to construct mains within
98 their already certificated service area. See Inter-State Water Co., Docket 89-0423
99 (January 18, 1990) (water utility not required to obtain certificate to construct facilities
100 within certificated area). Such facilities are deemed to be an “extension or alteration” or
101 “addition” to the existing system and, therefore, are not subject to the certification
102 requirements of Section 8-406 of the Act. 220 ILCS 5/8-406.

103 **OPERATIONS OF CINWC**

104 **Q. Please discuss the operations of CINWC.**

105 A. CINWC’s initial service area will be located in Lake County, Indiana as shown on CIWC
106 Exhibit B. The cross hatched area on the Exhibit is the service area that CINWC is
107 requesting from the Indiana Utility Regulatory Commission (“IURC”) at this time. It is
108 CINWC’s long-term objective to serve other areas within the state of Indiana. There are
109 no existing water or sewer facilities being operated by CINWC. Water and sewer
110 facilities, however, will be constructed following issuance of a certificate by the Indiana
111 Utility Regulatory Commission in mid-2002. At full build out, the Prairie Trails
112 Subdivision is expected to include 290 customers (residential and commercial). There are
113 6.926 acres designated for business use. At this time the exact number of commercial
114 customers that may request service is not known. It is expected, however, that the
115 commercial customers would include such businesses as restaurants, small retail stores
116 and/or gas stations.

117

117 **Q. Would you discuss the water and sewer facilities that will be constructed by CINWC**
118 **to serve its customers?**

119 A. To serve its customers, CINWC will build a water distribution system and sewage
120 collection system within the Prairie Trails Subdivision. CINWC will also build the mains
121 necessary to connect the water distribution system and sewage collection facilities to
122 CIWC's system at the interconnection point within the Willowbrook Certificated Service
123 Area. A Certificate authorizing CIWC to serve the area of the interconnection points was
124 issued in Docket 79-0348. CIWC Exhibit C shows the existing Willowbrook water and
125 sewer system and the interconnection points.

126 **Q. Please indicate the expected timetable for construction of the water and sewer mains**
127 **necessary for CINWC to provide service.**

128 A. The current IURC schedule calls for hearings on June 12th with an expected order in July.
129 Engineering plans for the construction of water and sewer mains in Illinois to connect to
130 the CINWC interconnection points will be submitted to the Illinois Environmental
131 Protection Agency ("IEPA") after CINWC receives approval of the water/sewer systems
132 from the IURC. Since no construction can take place until the IURC Order is received,
133 CIWC anticipates construction on the water and sewer lines to commence in July or
134 August of 2002. There is an opportunity for a settlement on May 21st. If settlement
135 should be reached, I would anticipate an IURC Order in June, 2002. Construction would
136 then commence in June or July of 2002. The actual construction timing, however, will be
137 dictated by the developer's schedule on the Prairie Trails subdivision in Lake County,
138 Indiana. It is expected that the developer will commence construction in, or prior to,
139 August, 2002. If, however, the developer's construction is delayed (for example, as a

140 result of a delay in the approval of the developer's engineering plans by Lake County)
141 CIWC's construction schedule also may be delayed.

142 **Q. Please discuss the usage and capacity of the Willowbrook water system.**

143 A. CIWC Exhibit D shows the current capacity of the Willowbrook water system; 2001
144 usage (average and for the maximum month); and projected usage (with and without sales
145 of water to CINWC in 2002, 2006 and 2111).

146 Rules of the IEPA and the Commission require that a water system have adequate
147 capacity to serve system needs with the largest capacity well out of service. To meet this
148 requirement, CIWC is adding a new well in 2002 or 2003 with a capacity of 500 gpm. A
149 new well is required to serve the existing demand, whether or not CIWC initiates water
150 sales to CINWC. When the new well is installed, CIWC will have 2 wells, each with a
151 capacity of 500 GPM or 720,000 GPD, and one well with a capacity of 200 GPM or
152 288,000 GPD. As indicated on CIWC Exhibit D, the average daily demand (including
153 CINWC) will increase to 682,300 GPD after 10 years. The analysis assumes that the
154 CINWC service area will add approximately 100 customers per year. Under average
155 conditions, one of the 500 GPM wells will satisfy the need, even if the other 500 GPM
156 well is out of service. During the maximum month the demand (including CINWC)
157 increases to 1,072,400 GPD after 10 years. One 500 GPM well and the 200 GPM well
158 will satisfy the demand. In summary, the current well arrangement does not meet
159 IEPA/Commission standard. With the installation of the second 500 GPM well, the
160 IEPA/Commission standard will be met.

161 **Q. Would you also discuss the Willowbrook sewer system usage and capacity?**

162 A. CIWC Exhibit E shows the current capacity of the Willowbrook sewer system; 2001
163 usage (average and for the maximum month); and projected usage (with and without
164 service to CINWC in 2002, 2006 and 2111). As with the water analysis, growth of
165 100 customers per year is assumed.

166 The IEPA uses the 3-month low system flows to determine the treatment plant
167 capacity. As indicated by the above table the 3-month low system flow average daily
168 demand will increase to 377,200 GPD after 10 years. The treatment plant is rated at
169 500,000 GPD. This indicates that the existing system will have a reserve of
170 approximately 20% remaining at the end of 10-years. CIWC does not anticipate having to
171 modify the existing Sewage Treatment plant to accommodate the additional commercial
172 loading, since the loading appears to be similar to the residential loading. Thus, the
173 current sewer treatment plant is capable of treating the sewage projected over the next 10-
174 years (including that delivered by CINWC).

175 **Q. Please discuss the modifications to the water and sewer facilities of the Willowbrook**
176 **Division which will be necessary over the next 10 years?**

177 A. As discussed above, to accommodate existing and future demand on the system, the
178 Willowbrook Division will be required to add a new well in 2002 or 2003. The new well
179 will have an estimated diameter of 10 inches and depth of 500 feet. The estimated cost of
180 the well is \$315,000. No additional water improvements are expected to be necessary
181 over the next 10 years. For the sewer system, no addition treatment facilities will be
182 required over the next 10 years.

183 **Q. Please discuss the expected water quality for the new well.**

184 A. Due to the proximity of the new well to the existing wells, a similar water quality to that
185 of the existing wells is expected. As with the current wells, treatment with chlorine and
186 fluoride is anticipated. Other treatment methods are not expected to be required unless
187 water quality requirements are modified in the future (presumably for all three wells).
188 Prior to installation of a production well, a test well will be installed and water quality
189 samples will be taken.

190 **Q. Will the provision of service to CINWC affect the required water and/or sewer**
191 **modifications?**

192 A. No, an additional well at Willowbrook would be needed whether CINWC takes service
193 from the Willowbrook Division or not. As indicated above, no additional sewer facilities
194 are required.

195 **Q. Would you indicate the number of customers who are expected to connect to the**
196 **water and sewer mains constructed by CIWC to provide service to CINWC?**

197 A. Along the approximate one-half mile water line in Illinois, CIWC estimates that
198 approximately 26 potential building lots could be served with water from the 12" main.
199 However, not all frontage along the main can be developed so the number of ultimate
200 connections cannot be confirmed. Since the sewer line is a force main, no individual
201 customers are expected to connect to the sewer line.

202 **Q. Will CIWC be responsible for installation of the water and sewer mains under the**
203 **agreements with the developer?**

204 A. Yes, CIWC will be responsible for the installation in Illinois. Under the Standard Form
205 Water and Sewer Main Extension Agreements, the developer has contributed \$174,100
206 and \$124,050 for the water and sewer main extensions, respectively.

207 **Q. Who are the officers and directors of CINWC?**

208 A. An organizational chart for CINWC is marked as CIWC Exhibit "F." One of CIWC's
209 Directors, Mr. Roy H. Stahl, also will be a Director of CINWC. The following CIWC
210 Officers also are officers of CINWC:

211 Robert G. Liptak – Chairman in CIWC & CEO in CINWC
212 Terry J. Rakocy – President
213 Michael D. Bratetic – Vice President – Finance
214 Thomas J. Bunosky – Vice President – Division Manager
215 Roy Stahl – Secretary
216 Kathy Pape – Treasurer
217 Jane I. Zinanni – Assistant Secretary
218 Robert A. Rubin – Assistant Treasurer

219 The majority of the officers are expected to perform work for CINWC.
220 Messrs. Rakocy, Bratetic and Bunosky, however, are expected to have more involvement
221 with CINWC as they will have a direct hand in managing the Company's day to day
222 operations.

223 **THE SERVICES AGREEMENT**

224 **Q. What is the purpose of the Services Agreement?**

225 A. CINWC has determined that, due to its small size, it will require that an outside entity
226 perform necessary management and other services in a cost effective manner. CIWC has
227 determined that, at certain times, it has resources which can be utilized to provide services
228 to CINWC. To permit CIWC to provide services to CINWC, CIWC and CINWC (the

229 “Parties”) have developed the proposed Services Agreement, which is identified as CIWC
230 Exhibit “A.”

231 **Q. Is Exhibit A identical to the Agreement attached to the Petition filed in this matter?**

232 A. No, the Agreement has been modified in certain respects to address concerns raised by the
233 Commission Staff.

234 **Q. Please summarize the provisions of the Services Agreement?**

235 A. Under the Services Agreement, CINWC may request and CIWC may elect to provide
236 services in, inter alia, the following areas: officers and directors; long-range planning;
237 general supervision; tax; accounting; finance; engineering; legal and other specialized
238 services; purchasing; contracts and sales; and insurance. CINWC will pay CIWC for the
239 full cost of labor, material and supplies provided by CIWC. Charges for labor shall
240 include a reasonable overhead rate and shall be based on the actual time devoted by CIWC
241 personnel to CINWC matters. Where work relates to CINWC and all other operating
242 areas, a customer count allocation will be utilized (i.e., CINWC customers as a percentage
243 of CIWC and CINWC customers combined). Charges for equipment will reflect the
244 related cost. CIWC is obligated to provide services under the Services Agreement only to
245 the extent that it can do so without adversely affecting utility services provided to CIWC’s
246 customers.

247 **Q. Will Illinois customers of CIWC benefit from the extension of service to Indiana?**

248 A. Yes. All revenues received by CIWC from CINWC as compensation of services provided
249 will be recorded above-the-line as an offset to the otherwise applicable level of operating
250 expense. Thus, CINWC’s use of available resources will reduce the level of fixed cost

251 which would otherwise be allocated to ratepayers in Illinois. The effect of this is to
252 mitigate the level of future rate increases.

253 **Q. Will CIWC's costs or rates be increased as a result of the Services Agreement?**

254 A. No. Neither CIWC nor ratepayers in Illinois will incur any cost associated with the
255 services provided by CIWC to CINWC.

256 **Q. Please describe CIWC Exhibit G.**

257 A. CIWC Exhibit G shows the projected revenue, operating expense and net income for the
258 Willowbrook Water and Sewer Divisions in 2003 and 2007, with and without CINWC
259 operations.

260 **Q. Please discuss the employees who are expected to perform work for CINWC?**

261 A. It is expected that the CIWC officers identified above will be involved in work for
262 CINWC. It also is expected that certain Distribution, Customer Service, Accounting and
263 Maintenance Employees will perform work such as meter reading, installing meters,
264 inspecting sewer lift stations, etc.

265 **Q. How will the charges for services from CIWC to CINWC be determined?**

266 A. Charges are determined in accordance with Section 12 of the Agreement. Under the
267 Agreement, CINWC will pay the full cost of services performed by CIWC.

268 **Q. Please discuss the equipment of CIWC which will be used to perform the work.**

269 A. Employees who perform work for CINWC are expected to use equipment such as vehicles
270 and computers. The cost of vehicles and other equipment used to perform work for
271 CINWC will be reflected in appropriate overhead allocations.

272 **Q. Please discuss the provisions of the Agreement which relate to the assignment of**
273 **labor costs and other costs associated with services provided to CINWC.**

274 A. Under Section 12(a) of the Agreement, the amount charged to CINWC for direct labor
275 will be based on the number of hours worked performed, i.e. hours times the hourly rate
276 (regular or overtime), plus a reasonable labor overhead factor, an information systems
277 loading factor and a common costs loading factor.

278 **Q. How will CIWC track the time of officers and employees who provide services for**
279 **CINWC?**

280 A. Each officer or employee performing work for CINWC will complete a timecard showing
281 the time required for the work. As noted above, where work is performed for all
282 Divisions, including CINWC, a customer count allocation will be used.

283 **Q. Does the Agreement provide for the allocation of equipment cost incurred in**
284 **providing services for CINWC?**

285 A. Yes, these provisions are included in Section 12(C) of the Agreement, which indicates that
286 all costs of the equipment provided by CIWC shall be charged at the fully distributed cost
287 incurred by CIWC in providing the use of equipment.

288 **Q. Under the Agreement, will CIWC record transactions with CINWC in separate**
289 **subaccounts so they can readily identified and monitored under the general ledger**
290 **system.**

291 A. Yes. The Agreement includes language requiring separate accounts in Section 5, which
292 discusses Accounting.

293 **Q. Please discuss the provisions of the Agreement with regard to access to records.**

294 A. The Agreement provides in Section 6 that each party shall have reasonable access, to and
295 the right to examine any and all books, documents, papers and records that pertain to
296 services provided under the Agreement. The Agreement further provides that the Illinois
297 Commerce Commission shall have access to all accounts and records of CINWC that may
298 be applicable to transactions with CIWC, subject to the limitations set forth in
299 Section 7-101.

300 **Q. Are there entities other than CIWC from which CINWC may be able to secure**
301 **services of the type covered by the Agreement?**

302 A. Yes. The Agreement permits CINWC to procure services from any source which it deems
303 appropriate. CINWC is not required to rely on CIWC for services. Also, CIWC is not
304 obligated under the Agreement to provide services if in doing so, CIWC would jeopardize
305 service to its Illinois retail customers.

306 **Q. Does approval of the Agreement by the Commission constitute approval of payments**
307 **thereunder for ratemaking purposes?**

308 A. No. Specific charges incurred under the Services Agreement would be subject to review
309 in rate proceedings.

310 **Q. Does the Agreement cover either: (1) guarantees of performance of any obligation of**
311 **any person, firm or corporations; or (2) any investment, loan or advance which**
312 **CIWC might make in CINWC?**

313 A. No. Such transactions are not covered by the Agreement, and, unless exempt, would be
314 subject to approval by the Commission under § 7-102 of the Public Utilities Act.

315 **Q.** **Is approval of the Services Agreement consistent with the public interest?**

316 A. Yes, in my opinion, it is.

317 **Q.** **Does this conclude your Direct Testimony?**

318 A. Yes, it does.